

**REPORT OF  
FINANCIAL EXAMINATION**

**ST. THOMAS-BABBTOWN MUTUAL  
INSURANCE COMPANY**

**AS OF  
DECEMBER 31, 2004**

**STATE OF MISSOURI  
DEPARTMENT OF INSURANCE  
JEFFERSON CITY, MISSOURI**

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June 21, 2005  
Meta, Missouri

Honorable W. Dale Finke, Director  
Missouri Department of Insurance  
301 West High Street, Room 530  
Jefferson City, Missouri 65101

Sir:

In accordance with your examination warrant, a full-scope examination has been made of the records, affairs and financial condition of

**ST. THOMAS-BABBTOWN MUTUAL INSURANCE COMPANY**

hereinafter referred to as such, or as the "Company". The Company's home office and principal place of business is located at 106 East 3<sup>rd</sup> Street (P.O. Box 116), Meta, Missouri, telephone number (573) 229-4211.

This examination began on June 20, 2005, and was concluded on June 21, 2005, and is respectfully submitted.

**SCOPE OF EXAMINATION**

**Period Covered**

The prior full-scope examination of the Company was made as of December 31, 1999, and was conducted by examiners from the State of Missouri. The current full-scope examination covers the period from January 1, 2000, through December 31, 2004, and was conducted by examiners from the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring subsequent to the examination date, which are noted in this report.

**Procedures**

This examination was conducted using the guidelines set forth in the Financial Examiners Handbook of the National Association of Insurance Commissioners (NAIC), except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the State of Missouri

prevailed.

### **Comments-Previous Examination Report**

The comments, recommendations, and notes of the previous examination report dated December 31, 1999, are listed below followed by the Company's response and the current examination findings regarding such comments, recommendations and notes.

### **Computer Equipment**

**Comment:** It was recommended the Company report computer equipment on the "Computer Equipment" line of the Annual Statement, rather than as an asset write-in.

**Company Response:** The Company agrees to report any computer equipment on the "Computer Equipment" line of future Annual Statements.

**Current Findings:** The Company did not report any computer equipment in the 2004 Annual Statement.

### **Corporate Records**

**Comment:** It was recommended the Company put more Company policies in writing, which should be maintained in an up-to-date manual and made available to Company management and personnel.

**Company Response:** The Company drafted and approved a policies and procedures manual during the examination period.

**Current Findings:** The Company currently has a policies and procedures manual in place which adequately addresses the business of the Company.

## **HISTORY**

### **General**

The Company was organized on May 25, 1892, as Fire Assistance Association of Babbtown. The

Company changed its name to St. Thomas-Babbtown Mutual Insurance Company in 1926. On December 28, 1984, the Company was incorporated in the State of Missouri.

The Company has a Certificate of Authority dated January 11, 1985, and is covered by Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company's Certificate of Authority is renewed annually.

### **Management**

In accordance with the Articles of Incorporation, the annual meeting of the Company's members is held on the first Monday in February, at the home office of the Company or at such other place as may be designated by the Board of Directors. Special meetings of the members may be called by the Board of Directors at any time and shall be called upon petition of one-fourth of the Members. Eight members shall constitute a quorum at any membership meeting. Proxy voting is not permitted.

The management of the Company is vested in the Board of Directors, who are elected from the general membership. The Board of Directors consists of five members, serving staggered, three-year terms. All directors must be policyholders of the Company. The Board of Directors meets approximately every quarter, and each member receives compensation of \$50 per each meeting attended.

Members serving on the Board of Directors as of December 31, 2004, were as follows:

<u>Name and Address</u>	<u>Occupation</u>	<u>Term</u>
James Luebbering 161 Luebbering Hill Lane St. Thomas, Missouri	Retired Farmer	2004-2007
Ruby Ross 466 Highway 42 Iberia, Missouri	Retire Business Owner	2003-2006
Charles Schroeder 6443 Highway P Westphalia, Missouri	Sales Representative	2003-2006

Frank Veltrop  
772 County Road 508  
St. Thomas, Missouri

City Maintenance Employee

2002-2005

Lawrence Wansing  
873 County Road 542  
Meta, Missouri

Retired Farmer

2002-2005

The Board of Directors appoints for a term of one year, a President, a Vice-President, and a Secretary, who may also serve as Treasurer when designated by the Board.

The officers of the Company serving at December 31, 2004, were as follows:

Lawrence Wansing  
Frank Veltrop  
James Luebbering

President  
Vice-President  
Secretary/Treasurer

### **Conflict of Interest**

The Company has written conflict of interest procedures for the disclosure of material conflicts of interest or affiliations by its directors and officers. The Company has its directors and officers sign conflict of interest statements on an annual basis, and no material potential conflicts were disclosed.

### **Corporate Records**

A review was made of the Articles of Incorporation and the Bylaws of the Company. No amendments have been made to the Articles of Incorporation or Bylaws since the last exam.

The minutes of the membership and the Board of Directors' meetings were reviewed for the period under examination. In addition, the Company's policies for investments and underwriting were reviewed. The minutes and records of the Company appear to properly reflect corporate transactions and events.

## **FIDELITY BOND AND OTHER INSURANCE**

The Company is a named insured on a fidelity bond providing a limit of liability of \$25,000. The fidelity bond coverage of the Company meets the minimum amount suggested in the guidelines promulgated

by the NAIC, which is between \$25,000 and \$50,000 in coverage.

The Company carries liability coverage for its directors and officers with an aggregate limit of \$1,000,000 and a \$5,000 deductible in aggregate for each claim.

The Company carries errors and omissions liability coverage for its agents with an aggregate limit of \$1,000,000 and a \$1,000 deductible for each claim.

The Company also carries property insurance coverage on its home office and equipment, as well as business liability insurance.

The insurance coverage appears adequate.

### **EMPLOYEE BENEFITS**

The Company has six part-time employees. No benefits outside of hourly salaries are provided by the Company to the employees.

### **INSURANCE PRODUCTS AND RELATED PRACTICES**

#### **Territory and Plan of Operation**

The Company is licensed by the Missouri Department of Insurance as an Extended Missouri Mutual Company operating under Sections 380.201 through 380.611 RSMo. (Extended Missouri Mutual Companies). The Company is authorized to write fire, wind and liability insurance in all counties in the State of Missouri. The Company writes fire and wind coverages and markets liability coverages through an organizational agreement with its reinsurer. The Company's policies are sold by four licensed producers, who receive a \$10 an hour for work related to issuing policies.

#### **Policy Forms and Underwriting Practices**

The Company uses AAIS policy forms. The policies are written on a continuous period. Rates are determined by the Board of Directors. Renewal billings are mailed directly to the insured. Inspections and

adjusting services are performed by the Directors of the Company, who are also agents.

### **GROWTH AND LOSS EXPERIENCE OF THE COMPANY**

	<u>Admitted Assets</u>	<u>Liabilities</u>	<u>Gross Assessment</u>	<u>Gross Losses</u>	<u>Investment Income</u>	<u>Underwriting Income</u>	<u>Net Income</u>
2004	\$1,465,524	\$585	\$324,795	\$256,882	\$29,957	\$40,797	\$77,730
2003	1,445,624	518	312,571	163,557	32,925	10,686	51,586
2002	1,393,772	252	247,858	177,240	39,499	23,711	69,278
2001	1,324,477	236	211,967	108,328	70,190	35,615	112,607
2000	1,211,854	221	210,906	156,719	66,571	(15,312)	44,337

At year-end 2004, 800 policies were in force.

### **REINSURANCE**

#### **General**

The Company's reinsurance premium activity on a direct-written, assumed and ceded basis for the period under examination is shown below:

	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>
Direct	\$209,927	\$207,716	\$244,770	\$308,198	\$324,795
Assumed	(6,922)	6,802	6,068	7,975	6,976
Ceded	<u>(37,712)</u>	<u>(56,198)</u>	<u>(72,077)</u>	<u>(92,890)</u>	<u>(91,766)</u>
Net	<u>\$165,293</u>	<u>\$158,320</u>	<u>\$178,791</u>	<u>\$223,283</u>	<u>\$240,005</u>

#### **Assumed**

The Company participates in a reinsurance pool with MAMIC Mutual Insurance Company (MMIC). The agreement pertains to errors and omissions policies and director and officer liability policies written by MMIC. MMIC cedes 100% of the first \$1,000,000 each claim and in aggregate on all insurance

agent and broker errors and omissions policies and 100% of the first \$2,000,000 each claim and in aggregate on all officer and director liability policies to the pool. MMIC receives a 35% ceding commission of net written premium ceded to the pool. The Company has a 3% share in the interests and liabilities of the pool.

### **Ceded**

The Company has all of its reinsurance through Grinnell Mutual Reinsurance Company (the reinsurer) under an individual occurrence of loss with aggregate excess plan reinsurance agreement for property risks. Under the individual occurrence of loss excess portion of the agreement, the Company retains \$50,000 for each loss occurrence and the reinsurer's limits are \$500,000 for dwellings, commercial and public property, and livestock, poultry and horse operations, and \$750,000 for farm outbuildings. Annual premium paid to the reinsurer for 2004 was \$.3230 for fire and \$.1069 for wind per \$1,000 of adjusted gross fire risks in force.

Under the aggregate excess portion of the agreement, the Company's annual aggregate net retention, or attachment point, is based upon the Company's ten-year average fire loss ratio plus a load, which is mutually agreed upon. The reinsurer is liable for 100% of losses in excess of this retention. The attachment point for 2004 was \$133,619 and the annual premium paid was \$.5782 per \$1,000 of adjusted gross fire risks in force.

Under the facultative reinsurance portion of the agreement, the Company may cede to the reinsurer risks that exceed the individual risk limits outlined in the agreement. Rates are determined by the reinsurer on an individual basis.

The Company has an earthquake quota share reinsurance agreement, under which the reinsurer assumes 100% of the earthquake risks and the Company receives a 25% ceding commission.

The Company also has an organizational agreement with the reinsurer, under which the Company writes liability coverage for the reinsurer. The Company receives a 20% commission on liability premiums written for the reinsurer.

The Company is contingently liable for all reinsurance losses ceded to others. This contingent liability would become an actual liability in the event that any assuming reinsurer should fail to perform its obligations under its reinsurance agreement with the Company.

## **ACCOUNTS AND RECORDS**

The accounting records are maintained by the Company on a modified cash basis. An outside accountant completes the Annual Statement, under the supervision of the Company Secretary/Treasurer. The Company has an audit committee, consisting of three elected members of the Company. The committee examines the transactions of the Company on an annual basis and presents a report at the annual membership meeting.

## **FINANCIAL STATEMENTS**

The following financial statements, with supporting exhibits, present the financial condition of the Company for the period ending December 31, 2004, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the Annual Statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements. (The failure of any column of numbers to add to its respective total is due to rounding or truncation.)

There may have been differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial, concerning their effect on the financial statements. Therefore, they were communicated to the Company and noted in the workpapers for each individual annual statement item.

**ANALYSIS OF ASSETS**  
**December 31, 2004**

Real Estate	\$ 10,654
Cash on Deposit	1,453,099
Other Investments (Note 1)	57,896
Interest Due and Accrued	1,771
	-----
Total Assets	\$ 1,523,420
	=====

**LIABILITIES, SURPLUS AND OTHER FUNDS**  
**December 31, 2004**

Liability Write-Ins	\$ 585
	-----
Total Liabilities	\$ 585
	-----
Guaranty Fund	\$ 150,000
Other Surplus	1,372,835
	-----
Total Surplus	\$ 1,522,835
	-----
Total Liabilities and Surplus	\$ 1,523,420
	=====

**STATEMENT OF INCOME**  
**December 31, 2003**

Net Premium	\$ 233,029
Net Losses Incurred	(117,372)
Other Underwriting Expenses	(74,860)
	-----
Net Underwriting Income (Loss)	\$ 40,797
	-----
Investment Income	\$ 29,957
Other Income	6,976
	-----
Gross Income (Loss)	\$ 77,730
Federal Income Tax	0
	-----
Net Income (Loss)	\$ 77,730
	=====

**CAPITAL AND SURPLUS ACCOUNT**  
**December 31, 2004**

Policyholders' Surplus, December 31, 2003	\$ 1,445,105
Net Income (Loss)	77,730
	-----
Policyholders' Surplus, December 31, 2004	\$ 1,522,835
	=====

## NOTES TO THE FINANCIAL STATEMENTS

### Note 1 – Other Investments

The Company failed to report its equity interest at December 31, 2004 in the MAMIC Mutual Insurance Company E&O – D&O Program. The examination change results in an increase to other investments and policyholder surplus of \$57,896.

### EXAMINATION CHANGES

Total Policyholder's Surplus Per Company, December 31, 2004			\$ 1,464,939
	Increase in Surplus	Decrease in Surplus	
Other Investments	\$ 57,896	\$ (0)	
	-----	-----	
Total Change	<u>\$ 57,896</u>	<u>\$ (0)</u>	<u>57,896</u>
Total Policyholder's Surplus Per Examination, December 31, 2004			<u>\$ 1,522,835</u>

### GENERAL COMMENTS AND RECOMMENDATIONS

None.

### SUBSEQUENT EVENTS

None.


## ACKNOWLEDGMENT

The assistance and cooperation extended by the employees of St. Thomas-Babbtown Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated.

## VERIFICATION

State of Missouri    )  
                              ) ss  
County of Cole        )

I, Shannon W. Schmoeger on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only the facts appearing upon the books, records or other documents of the company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

  
Shannon W. Schmoeger, CFE  
Financial Examiner  
Missouri Department of Insurance

Sworn to and subscribed before me this 16<sup>th</sup> day of August, 2005.

My commission expires:

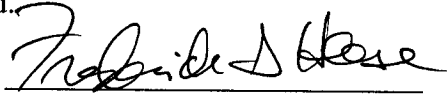
May 1, 2008

  
Notary Public

DEBBIE J. NOLKE  
Notary Public - Notary Seal  
STATE OF MISSOURI  
County of Boone  
My Commission Expires May 1, 2008

## **SUPERVISION**

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

A handwritten signature in black ink, appearing to read "Frederick G. Heese", written over a horizontal line.

Frederick G. Heese, CFE, CPA  
Audit Manager  
Missouri Department of Insurance

September 19, 2005

RECEIVED  
MO INS DEPT  
SEP 29 2005

Department of Insurance  
P.O. Box 690  
Jefferson City, MO 65102-0690

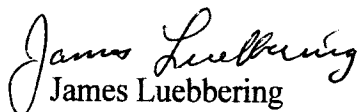
Dear Mr. Schmidt,

We are in receipt of your Examination Report for the period ending December 31, 2004 and agree to include the equity interest of the MAMIC Mutual Insurance Company E&O-D&O Program. This adjustment will be made on the December 31, 2005 report.

This recommendation was discussed with the CPA who prepares our financial statements, the Missouri Mutual Annual Statement (required by the Missouri Department of Insurance) and IRS form 990. Our CPA agreed that she would include this information on future Missouri Mutual Annual Statements required by the Missouri Department of Insurance. Our CPA did question why this recommendation was not included on the previous Examination Report for the period ending December 31, 1999. The Examination Report for the period ending December 31, 1999 had two recommendations, one that addressed the reporting of computer equipment and the other that addressed the need for written company policies.

We appreciate your time in reviewing our records and would like this letter included in the report as a public document.

Sincerely,



James Luebbering  
Secretary-Treasurer

St. Thomas-Babbtown Mutual Insurance Company